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**OFFICE OF CURRENT INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY**

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State Dept. review completed

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THE TAIWAN STRAIT

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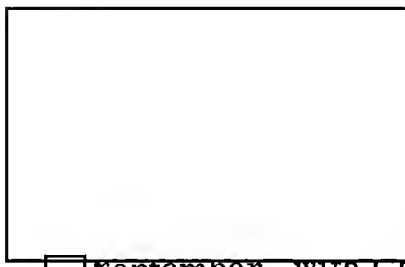
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2. FORMER INDIAN FINANCE MINISTER DESHMUKH MAY RETURN TO OFFICE



Prime Minister Nehru is reportedly planning to replace Indian Finance Minister Krishnamachari, who is scheduled to come to the United States for financial talks in

September, with Chintaman Deshmukh, whose performance as finance minister from 1950 to 1956 was a major factor in the success of India's First Five-Year Plan (1951-1956). Deshmukh is considered strongly pro-US.

Deshmukh's recommendations while in office in favor of a more realistic but less politically attractive Second Five-Year Plan were not accepted by Nehru despite his often-expressed confidence in Deshmukh's financial abilities.

Nehru reportedly has grown increasingly despondent as India's economic crisis has deepened, and while he is publicly supporting Krishnamachari's policy of pushing ahead with the Second Five-Year Plan, he has been reported uncertain as to whether this is the proper course. Deshmukh reportedly would return to office only if Nehru would guarantee support for his financial policies.

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3. GUATEMALAN PRESIDENTIAL ELECTION PLANNED FOR 20 OCTOBER

The state of siege in Guatemala is to be lifted on 20 August and the election of a successor to the late president Castillo Armas is planned for 20 October.

By setting the election for October, at least two months earlier than is constitutionally required, the administration forces would minimize inroads into the strength of the politically dominant MDN by any new party, including leftist or pro-Communist groups which might be organized.

The chief threat to the MDN appears to be the developing split between the dominant right-of-center group in the government which has the support of Defense Minister Col. Juan Francisco Oliva, and a group further to the right led by his half-brother, Col. Enrique Oliva, who may soon announce the formation of a new political party, taking some MDN members with him. Enrique Oliva is the coordinator of intelligence for the government and is reported to be receiving organizational and financial support from Dominican dictator Trujillo.

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SUMMARY

11 July - 14 August 1957

THE TAIWAN STRAIT

Report of the IAC Current Intelligence Group
for the Taiwan Strait Problem

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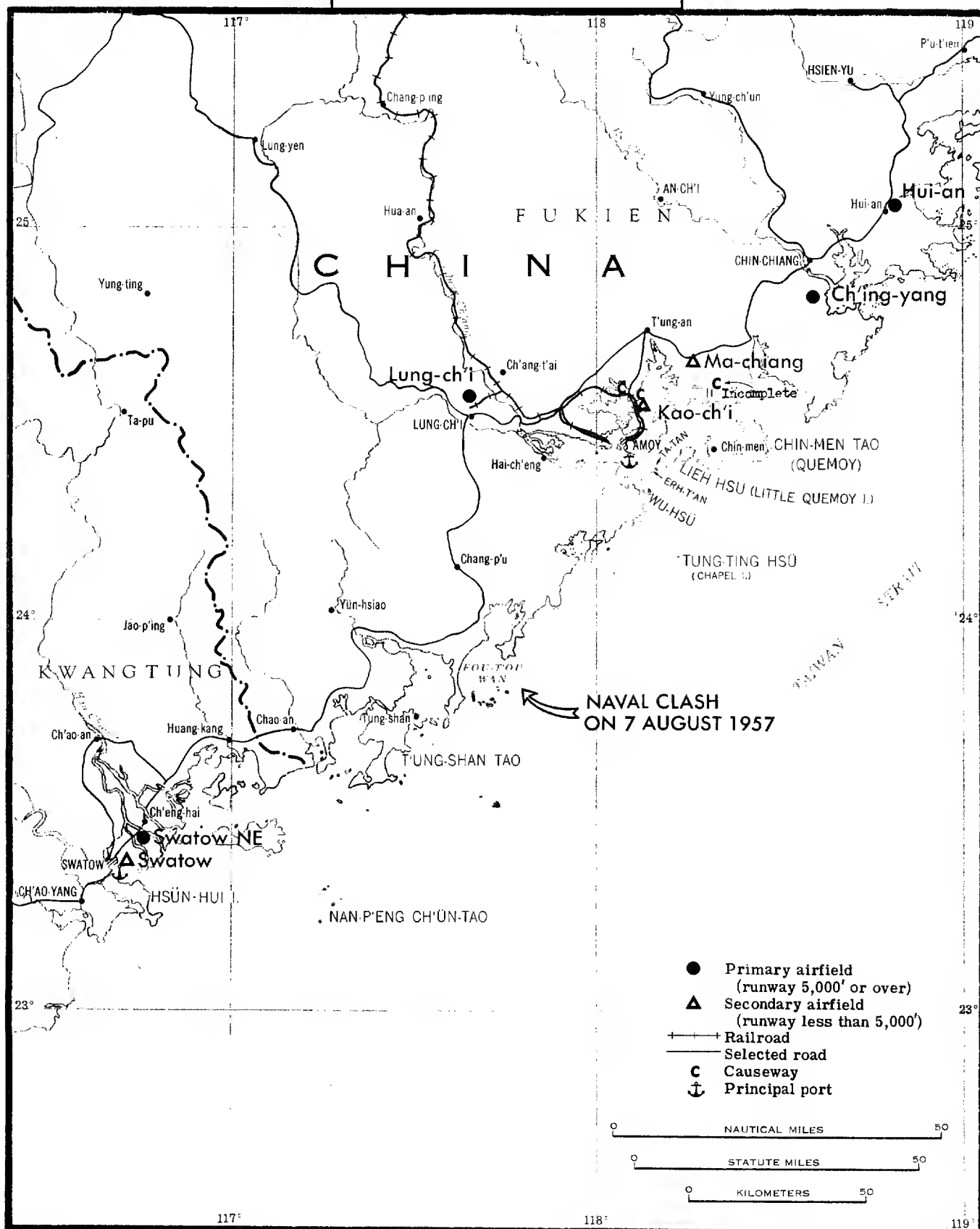
1. There were no significant ground or air combat operations in the area during the period. [REDACTED]

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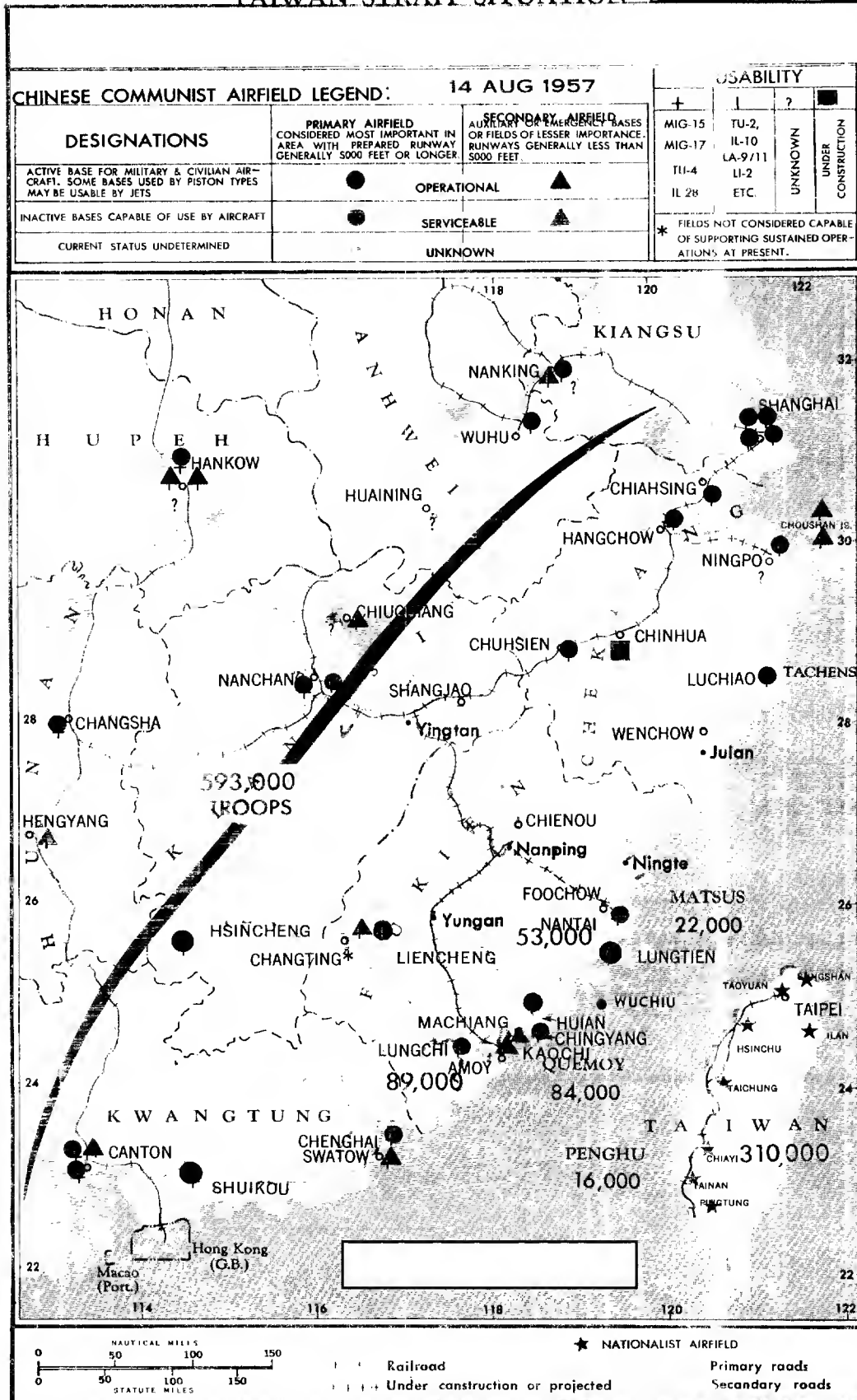
2. On 7 August, two Chinese Nationalist submarine chasers engaged a small Communist naval group in a 45-minute naval battle in Fu Tou Bay, approximately 50 miles southwest of the Quemoy. The Communist ships apparently were sighted as they were departing Amoy harbor, and the two Nationalist vessels were diverted to intercept them. Only two small Communist patrol craft and four motorized junks were involved, with only one of the patrol craft reported sunk.

This action indicates an increased aggressiveness on the part of the Nationalist naval patrols. Minor naval engagements have occurred from time to time; however, Nationalist naval patrols have been extending their activity farther south than usual, probably in an effort to enforce their port closure policy with regard to Amoy. [REDACTED]

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TAIWAN STRAIT SITUATION



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